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UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL ELECTRIFICATION ADMINISTRATION

December 3, 1945

To All REA Co-op Officials:

I wish I could meet each one of you personally and informally, to swap ideas and experiences for our mutual benefit. Since that is obviously impossible, it occurred to me that we might at least have an informal exchange of ideas about this REA co-op program by means of the written word. And I really mean informal. That's why this letter is called a "Co-op Chat" so as to set it apart from letters stating official policy or dealing with routine matters.

It is my hope that all of you will read this letter and others like it which may follow, at your leisure and with a friendly, open mind, and that at least some of you will take time to respond personally. I shall be interested just as much in constructive comments as in expressions of general agreement.

We are all engaged in furthering the same program -- getting electricity to rural people on a nonprofit, cooperative basis and helping them to put this power to the best possible use on their farms, in their homes and in their communities. While each of us may see his particular place and duties in a different light, depending on whether we are elected co-op trustees or officers or paid co-op managers or federally employed public servants, we can still learn from each other and, by thus broadening our knowledge and understanding, we can each do a better job in his particular sphere. I am frank to admit that I have learned a good deal during the past few months since it became my privilege to devote my full attention to the REA program. And I am not a newcomer to the co-op idea. My practical work and experience with farm co-ops goes back a good many years, long before I became a member of the Carroll County, Indiana, electric co-op.

It had been my intention in this letter to discuss our mutual responsibilities as I see them. However, my attention has been called to a statement on "REA Staff Relations with REA Co-op Officials and Employees" which was issued to the REA staff about two years ago. Since that statement comes very close to what I had in mind and since you have not seen it, a copy is attached for your study and any comment which you may care to make.

In reading it, please remember that it was prepared for the guidance of REA employees and is not intended as instructions to REA co-ops. But my thought is that you may find it helpful in reviewing in your minds the nature of your own responsibilities. The better each of us understands his particular job, the more effectively we can work together.

Sincerely yours,

Claude R. Wickard
Administrator

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REA Staff Relations with REA Co-op Officials and Employees

In our relations with our cooperative borrowers we are called upon to deal with a wide range of subjects, both by correspondence and by means of personal field contacts. In deciding whether a particular matter should be taken up with the board or with the manager, REA staff members must keep in mind the nature of these cooperative borrower organizations, the lines of authority peculiar to cooperative enterprise, and the respective duties and responsibilities of members, directors, officers and manager as stated or indicated in the bylaws of these co-ops.

Taking up a technical operating detail with a co-op board instead of the manager may result in needless delay and confusion, since a lay board is neither prepared nor expected to handle the technical details of day to day operations. To attend to such matters is properly a part of the manager's functions. On the other hand, calling on the manager for decisions or actions on financial or organizational matters which are properly a part of the co-op board's functions may place the manager in an embarrassing position with his board, and the board with the co-op membership.

Perhaps all of us have been guilty of such errors in judgment at one time or another. It may be impossible to avoid them entirely in a program such as REA has been given to carry out -- a program unique in its conception and development, utilizing the resources of the Federal Government to help rural people to build, own, operate and locally control on a democratic basis the electric distribution systems serving them. But an awareness of certain basic facts will enable us to make our contacts with the co-ops of maximum benefit to them and, correspondingly, to the REA program. Let me therefore review these facts here briefly.

Nature of Relationship Between the Co-ops and REA

An REA co-op is an independent, self-governing local association of rural people. Control of it is vested by law in its members, who are also its users and will jointly be its full owners when the REA loan is paid off.

During the life of an REA loan, there exists a contractual relationship between REA and the borrower co-op, as set forth in the loan contract and the mortgage or indenture. The provisions of these contracts are based on the authority and powers vested in the Administrator by the Congress, as embodied in the Rural Electrification Act. Their purpose is to enable REA to exercise what supervision may be necessary for the protection of the REA loan and for its effective application in carrying out the intention of the Act, without undue interference on REA's part with local self-government and control by the co-op membership and its elected representatives.

Our supervision and our advisory services have as a direct objective the development, as rapidly as possible, of strong, self-sufficient local co-ops able to handle their own affairs competently. Considering the farm people's previous complete lack of experience in the power business and the previous lack of experience of most REA co-op employees in cooperative enterprise, the REA co-ops as a whole have gone far towards reaching that objective.

An REA loan is made not to the co-op manager or to the board, but to the co-op as an association, which means to all of its present and future members jointly. The loan repayment is made from revenues obtained from the payment of the members for electric service. In other words, when we think of a co-op borrower we must remember that this means the entire body of members, not just the board, nor the manager employed by the board. But it is obviously impossible for us to deal constantly with the entire membership of a co-op, just as it is impossible for that membership jointly to handle the business of the co-op between members' meetings.

Lines of Responsibility in an REA Co-op

For the sake of effective functioning, the co-op members must delegate the month-to-month responsibility for supervision, operating policies and management to a board of directors or trustees elected by and from the membership. The powers and duties of the board are described in the bylaws which also make it clear that the board is responsible to the members, must keep them informed on how it carries out its trusteeship, and must give them an opportunity to exercise their control at the annual members' meeting. That's why annual meetings are important.

Although the president and the other elected officers of the board have certain specific duties and responsibilities, it must be remembered that the co-op membership does not elect these officers directly but leaves it to the board to choose them from the elected trustees. This means that the entire board is responsible for what its officers do or fail to do. That is one reason why monthly meetings of the entire board are important.

Communication to the Board

We can help the REA co-op boards most effectively if we keep this joint responsibility of the board in mind. Matters that concern the entire board should be directed to the board as a whole. If a communication to the board is merely informative, it can be marked for the attention of the secretary of the board whose duty it is to bring the information before the board. If a communication invites board action, it will generally be best to mark it for the attention of the president who, as the principal executive officer and chairman of the board, has the responsibility for seeing to it that matters requiring board consideration and action are brought before the board.

In particularly important or urgent matters, it may even be desirable to send copies of such a letter to each trustee. Copies of communications addressed to the board should also generally be sent to the co-op office, for the manager's information. While the president has broader responsibilities than other individual officers and trustees, he may not make decisions which belong to the board, except when the board specifically authorizes him and in so far as the bylaws permit. But the final responsibility will always have to be assumed by the board as a whole.

Status of the Manager

Co-op bylaws usually state that "the business and affairs of the co-operative shall be managed by the board of trustees." However, it is obvious that trustees who donate their services and have farms or other businesses of their own to attend to cannot be expected to acquire the technical knowledge necessary nor to have the time to undertake personally the management of such a large electric distribution business. That is why the board employs a manager to take care of the technical problems and the day-by-day operations of the business and of the co-op organization.

As the board's employee, the manager is responsible to the board as a whole, not to any individual trustee. Since the board is responsible to the membership for the management of the co-op, it is in the interest of every trustee that a competent manager be employed and be given the necessary authority to do a good job.

The manager is responsible for the work of all other employees except special professional consultants engaged directly by the board. He receives his general directions and special instructions from the board as a whole. It is not customary nor is it good practice for a board to give orders directly to the employees. That is one of the functions of the manager. The officers of the board, in connection with their duties may need clerical assistance from certain office employees. It is part of the manager's job to make the necessary arrangements and to see that the officers are relieved of any technical or time-consuming detail work which should be delegated to paid employees.

REA Contacts with the Manager

Since the manager is in charge of the co-op personnel, REA's contacts with a co-op on the technical aspects of operating the enterprise should generally be made through the manager, even though the particular matter may pertain specifically to the duties of the bookkeeper, the lineman, or other employees. The manager can be requested to bring correspondence to the attention of the employee most directly concerned. In field work, such as auditing or engineering, it usually makes for better cooperation if the REA representative sees the manager before taking up co-op matters with others of the staff.

The visit of an REA representative at a co-op office frequently means that some employees must temporarily interrupt their routine work. However helpful a purpose the visit to the co-op may have, it may cause

difficulties in the co-op office unless the interruption of employees' routine work occurs with the manager's knowledge and prior approval.

To Sum Up

Let us remember that:

1. An REA co-op is not a subsidiary of REA but a locally owned and controlled enterprise of rural people.
2. Control is vested in the membership as a whole.
3. Responsibility for effective management is delegated by the members to the board as a whole, not to the president nor to the manager.
4. The co-op president, as chairman of the board, is the principal executive officer but is neither expected nor entitled by the bylaws to assume sole responsibility for running the co-op's affairs.
5. The manager is responsible to the board for the day-by-day operation of the co-op. He is in charge of the employees. He receives his instructions from the board as a whole.
6. The effectiveness of the REA program depends on the effectiveness of the REA co-ops as self-governing cooperative community enterprises. We can be most helpful to them if we keep in mind these lines of authority and responsibility within the co-op organization and exercise care in deciding with whom any particular matter should properly be taken up. This will not only save needless embarrassment to co-op officials and employees, but will help them to a clearer understanding and most effective carrying out of their respective responsibilities.